Tenaga Nasional (TNB MK)

9M25: In Line; Receives MOF Approval For 7B Income Tax Schedule For A Fair Amount To Be Offset Against Future Income

	BUY (Maintained)
Share Price	RM13.18
Target Price	RM16.30
Upside	23.7%

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Highlights

- TNB reported healthy 3Q25 normalised net profit of RM1,037m – a growth of 38% yoy and 4% qoq. 9M25 normalised net profit of RM3,234m makes up 74% of our projections, in line with expectations.
- TNB has received MOF's approval for Investment Allowance under Schedule 7B. This clears an overhang on the stock as no future provision is expected. While not the whole RM10.6b have been approved, a fair amount has been approved by MOF to be offset against future income.
- Maintain BUY with a DCF-based target price of RM16.30.

3Q25 Results

Year to 31 Dec (RMm)	3Q25 (RMm)	3Q24 (RMm)	qoq % chg	yoy % chg	9M25 (RMm)	yoy % chg
Revenue	**17,250**	**14,352**	**2.5**	**20.2**	**50,123**	**18.3**
EBITDA	3,805	3,580	(6.9)	6.3	12,122	5.3
EBITDA margin (%)	22.1	24.9	(2.2)	(2.9)	24.2	(3.0)
Pretax profit	1,205	1,875	(24.8)	(35.7)	4,361	(6.7)
Net profit	877	1,445	(24.3)	(39.3)	3,093	(7.3)
Core net profit	**1,037**	**750**	**3.9**	**38.2**	**3,234**	**15.9**
Operating Matrix			**qoq % chg**	**yoy % chg**		**yoy % chg**
Coal prices (US$)	97.4	112.0	(2.7)	(13.0)	110.5	(1.8)
Coal consumption	9.0	9.3	(6.3)	(3.2)	27.0	5.1
LNG prices (RM)	38.8	40.4	(2.0)	(4.0)	40.3	1.7
Daily gas allocation	866	951	3.6	(8.9)	846.0	(13.8)
PM Elec. Sales gwth (yoy)	-1.9	12.3	(3.9)	(14.3)	1.6	(4.4)
Average tariff (sen/kwh)	43.6	38.0	7.6	14.5	41.4	2.6

Source: TNB, UOB Kay Hian

Analysis

- **9M25 results in line with expectations.** Tenaga Nasional (TNB) reported 3Q25 normalised net profit of RM1,037m (+38% yoy; +4% qoq). Earnings were driven by a higher regulatory revenue base and lower subsidiary general expenses. 9M25 normalised net profit of RM3,234m (+16% yoy) accounts for 74% of our expectations, and is in line with expectations.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	63,665	56,737	59,022	61,616	64,286
EBITDA	17,840	20,542	21,450	22,171	22,866
Operating profit	6,574	9,309	9,949	10,723	11,468
Net profit (rep./act.)	2,770	4,699	4,349	4,642	4,940
Net profit (adj.)	3,735	4,329	4,349	4,642	4,940
EPS	65.7	76.1	76.5	81.6	86.9
PE	20.1	17.3	17.2	16.1	15.2
P/B	1.3	1.2	1.2	1.2	1.1
EV/EBITDA	6.4	5.3	5.3	5.0	4.8
Dividend yield	3.5	3.9	3.9	4.0	4.3
Net margin	4.4	8.3	7.4	7.5	7.7
Net debt/(cash) to equity	72.0	62.6	66.2	61.2	56.3
Interest cover	4.7	5.9	5.6	5.3	5.1
ROE	4.7	7.9	7.1	7.4	7.8
Consensus net profit			4,507	4,861	5,174
UOBKH/Consensus (x)			0.97	0.95	0.95

Source: TNB, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Utilities
Bloomberg ticker	TNB MK
Shares issued (m)	5,821.9
Market cap (RMm)	76,828.1
Market cap (US$m)	18,466.1
3-mth avg daily t'over (US$m)	16.0

Price Performance (%)

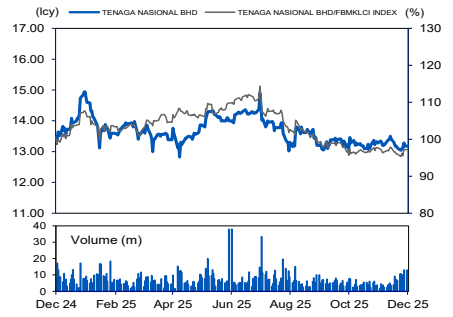
52-week high/low				RM15.04/RM12.66
1mth	3mth	6mth	1yr	YTD
(0.3)	(1.9)	(6.5)	(5.7)	(11.8)

Major Shareholders

	%
EPF	20.0
Khazanah Nasional	18.1
Amanah Saham Nasional	11.8

FY25F NAV/Share (RM)	10.92
FY25F Net Debt/Share (RM)	7.11

Price Chart



Source: Bloomberg

Company Description

Generates and distributes electricity in Peninsular Malaysia and Sabah.

- **Positive news on income tax dispute amounting to RM10b.** On 26 Nov 25, Tenaga received a letter from the Ministry of Finance (MOF) granting approval for Investment Allowance (IA) in respect of capex which will be deducted from future income.
- **Lifts an overhang on the stock; no more talks of tax provision in future.** We view the above news positively; although the full RM10b of income tax was not approved, a fair amount was granted. Importantly, no earnings impairment from tax provisions will arise in the future. We await further guidance on effective tax rate over 2025-27.
- **Recap of income tax dispute.** In Jul 25, the Federal Court ruled that TNB is a utility company and therefore must come within the confines of Schedule 7B. As a result, TNB has recognised a one-off provision in 2003-24 amounting to RM10.6b, which caused a drop in TNB's Retained Earnings. On a cash flow basis, cash balance is also reduced by RM5b but liquidity position remains healthy (for operational and financing needs) at RM20.5b of borrowing facility. Cash balance as at 30 Sep 2025 was RM14.5b.
- **3Q25 electricity demand remains healthy, growing 4% yoy and 3% qoq** on the back of higher commercial demand.
- **3Q25 generation costs** eased to 19.3 sen/kwh vs 20.5 sen/kwh in 3Q24. Global coal prices continue to ease with average coal prices falling 13% yoy and 3% qoq in ringgit terms.

Valuation/Recommendation

- **Maintain BUY with a DCF-based target price of RM16.30** (discount rate: 8%, growth rate: 1%). Our equity risk premium on the stock at 7.8% reflects TNB's tariff autonomy and the gradual decoupling of tariffs from the government's purview. At our target price, the stock trades at 17.3x 2025F EPS, +2SD above five-year mean PE.

Earnings Revision/Risk

- No change to earnings.
- Key risks include: a) lumpy and unprofitable overseas renewable energy (RE) projects, and b) forex risk to operating cashflow.

Share Price Catalyst

- **Key re-rating catalysts** include: a) giving TNB the autonomy to change electricity prices by 7% without seeking Cabinet approval every six months, b) recognition of contingent capex in the 2026-27 earnings window; c) listing of a profitable genco and/or RE division, and d) benefitting from the ASEAN Power Grid rollout.

Environmental, Social, Governance (ESG)

Environmental

- Besides targeting 8,300MW in RE generation capacity by 2025 (1.5x from 3,398MW in Dec 20), TNB has also made new pledges to reduce emission intensity by 2035 and being coal-free by 2050.

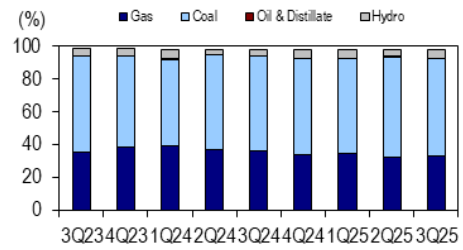
Social

- Established a collaborative partnership with YPM to provide support for the education of underprivileged B40 students. GMB contributed RM407,000 to this initiative, benefitting 1,100 B40 students.

Governance

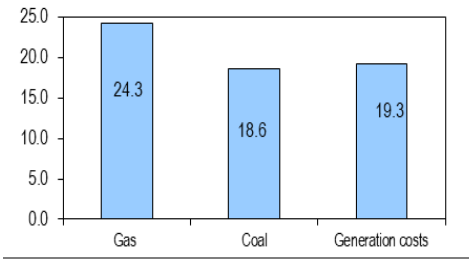
- Good company transparency along with an anti-bribery and whistle-blowing policy.

Generation Mix



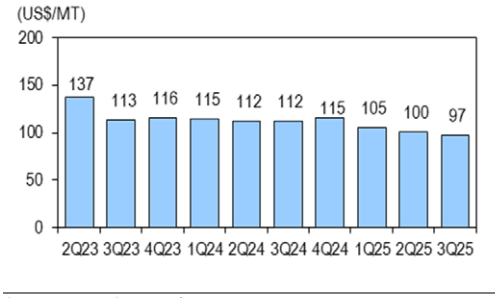
Source: TNB, UOB Kay Hian

Generation Unit Cost (3Q25)



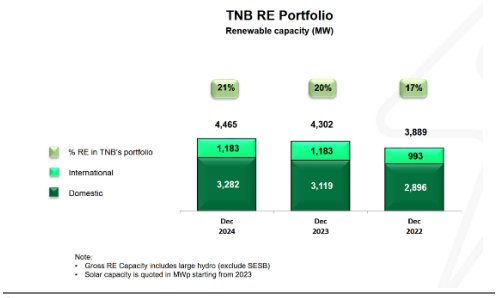
Source: TNB, UOB Kay Hian

Quarterly Coal Prices



Source: TNB, UOB Kay Hian

TNB's RE Portfolio



Source: TNB

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**56,737**	**59,022**	**61,616**	**64,286**
EBITDA	20,542	21,450	22,171	22,866
Deprec. & amort.	11,232	11,501	11,448	11,399
EBIT	9,309	9,949	10,723	11,468
Total other non-operating income	-25	0	0	0
Associate contributions	108	113	119	124
Net interest income/(expense)	(3,469)	(3,804)	(4,166)	(4,491)
Pre-tax profit	**5,815**	**6,258**	**6,676**	**7,101**
Tax	(1,085)	(1,877)	(2,003)	(2,130)
Minorities	(31)	(31)	(31)	(31)
Net profit	**4,699**	**4,349**	**4,642**	**4,940**
Net profit (adj.)	4,329	4,349	4,642	4,940

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	125,611	124,977	124,396	123,864
Other LT assets	39,137	39,250	39,368	39,493
Cash/ST investment	19,601	16,302	18,185	20,098
Other current assets	20,707	21,247	21,859	22,490
Total assets	**205,056**	**201,775**	**203,808**	**205,945**
ST debt	6,276	6,176	6,076	5,976
Other current liabilities	27,693	23,131	23,689	24,279
LT debt	51,131	51,031	50,931	50,831
Other LT liabilities	57,387	57,387	57,387	57,387
Shareholders' equity	60,371	61,820	63,465	65,180
Minority interest	2,199	2,230	2,261	2,292
Total liabilities & equity	**205,056**	**201,775**	**203,808**	**205,945**

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**22,447**	**14,472**	**20,113**	**20,696**
Pre-tax profit	815	6,258	6,676	7,101
Tax	0	(1,877)	(2,003)	(2,130)
Deprec. & amort.	11,232	11,501	11,448	11,399
Associates	(108)	(113)	(119)	(124)
Working capital changes	0	(5,101)	(55)	(40)
Non-cash items	0	0	0	0
Other operating cashflows	10,508	3,804	4,166	4,491
Investing	**(11,595)**	**(10,279)**	**(10,302)**	**(10,240)**
Capex (growth)	(11,264)	(10,867)	(10,867)	(10,867)
Investments	0	0	0	0
Others	-331	588	565	627
Financing	**(12,752)**	**(7,493)**	**(7,928)**	**(8,544)**
Dividend payments	(2,900)	(2,900)	(2,997)	(3,225)
Issue of shares	201	0	0	0
Proceeds from borrowings	(4,364)	(200)	(200)	(200)
Others/interest paid	(5,689)	(4,393)	(4,731)	(5,119)
Net cash inflow (outflow)	**(1,900)**	**(3,299)**	**1,883**	**1,913**
Beginning cash & cash equivalent	**17,225**	**15,369**	**12,070**	**13,953**
Changes due to forex impact	43	0	0	0
Ending cash & cash equivalent	**15,369**	**12,070**	**13,953**	**15,866**

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	36.2	36.3	36.0	35.6
Pre-tax margin	10.2	10.6	10.8	11.0
Net margin	8.3	7.4	7.5	7.7
ROA	2.3	2.1	2.3	2.4
ROE	7.9	7.1	7.4	7.8
Growth				
Turnover	(10.9)	4.0	4.4	8.9
EBITDA	15.1	4.4	3.4	6.6
Pre-tax profit	72.4	7.6	6.7	13.5
Net profit	69.6	(7.4)	6.7	13.6
Net profit (adj.)	15.9	0.5	6.7	6.4
EPS	15.9	0.5	6.7	13.6
Leverage				
Debt to total capital	91.7	89.3	86.7	84.2
Debt to equity	95.1	92.5	89.8	87.2
Net debt/(cash) to equity	62.6	66.2	61.2	56.3
Interest cover (x)	5.9	5.6	5.3	5.1

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